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WHA FOR THOMAS SHANNON

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TAGS: [PREL](#) [PTER](#) [KCRM](#) [SNAR](#) [PA](#)
SUBJECT: PARAGUAY SCENESETTER FOR WHA A/S THOMAS SHANNON

Classified By: MICHAEL J. FITZPATRICK; REASONS 1.4 (b), (d)

¶1. (C) Assistant Secretary Shannon, Embassy Asuncion warmly welcomes your visit as an opportunity to strengthen our relationship with Paraguay and promote U.S. interests focused on strengthening democratic institutions, promoting sound economic policies and good governance, disrupting criminal organizations, and combating terrorist financing. You come at a particularly sensitive time, with President Duarte tilting leftward in his search for greater support -- both domestically and internationally -- and much of the body politic focused on Presidential Elections in April 2008. Governments in the region and segments within Paraguay routinely call into question important aspects of our relationship. Many Paraguayans -- inside and outside the government -- however, support closer U.S. ties, in particular as a political and economic counterbalance to the influence Brazil wields over Paraguay and in response to concern about growing cooperation between Venezuela-Bolivia, including in the military sphere.

¶2. (SBU) An overview of the current situation in Paraguay follows, highlighting key issues which may come up in your scheduled meetings.

Your Program in Asuncion

¶3. (U) Post is pleased to have this opportunity to host your visit to Paraguay. You will meet with the Ambassador first and then with the Country Team to obtain a brief on the overall situation in Paraguay before meeting with Embassy Staff to provide Washington's view of Paraguay and the broader region. We have arranged for you to visit with the Foreign Minister, Presidential Advisor Carlos Walde and the MCA team, business and NGO leaders, the Director of Paraguay's Anti-Drug Unit (SENAD) and the directors of a number of Paraguayan investigation units. We are waiting to hear about whether President Duarte will meet with you. The Foreign Minister will host a small dinner for you; we are planning to host a large reception to which we would invite key political and economic leaders. The press will be invited to a number of events including a Peace Corps signing in ceremony, a meeting with students and teachers participating in our English language instruction program with the Paraguayan-American Cultural Center (CCPA), and your visit with some merchants benefiting from USAID's export promotion program. Separately, we are arranging an off-the-record meeting with a number of key press editors and on-the-record interviews with Paraguay's leading daily newspaper and radio.

The Political Scene

¶4. (C) Your visit comes four years into the five-year presidency of Nicanor Duarte Frutos. In that time, Duarte has taken steps to deal with a pressing fiscal crisis, revive

the economy, and fight corruption. In the last year, however, political support for Duarte has sagged with polls indicating the general population is not satisfied his government has taken adequate measures to create jobs, improve the economy and tackle corruption. Duarte tilted left, criticizing President Bush and stressing greater appreciation for Venezuelan President Chavez, and his "commitment" to the region. Duarte still holds on the hope he can secure a Constitutional amendment allowing for his reelection. However, that drive likely will come to an end on April 28 -- the day you depart Paraguay -- when the Colorado Party will hold a convention to elect members to its Party Election Tribunal but where the real discussion will revolve around choosing Duarte's successor. President Duarte presently favors his Education Minister Blanca Ovelar over Vice President Castiglioni to succeed him. Vice President Castiglioni formally declared his own intention to seek the Colorado nomination March 28, essentially cutting his remaining ties to NDF and the "Official" wing of the party. Acting Party President Alberto Alderete announced April 19 he will not run as vice-president on a ticket with Ovelar (he prefers the top slot), signaling a rupture with the President and his own interest in making a run at the Party's nomination for president. Leftist priest Fernando Lugo is the leading candidate on the opposition side though he faces a potential legal challenge himself as the Constitution bars "ministers" from seeking political office. While he and the opposition parties give lip service to the need for a united front behind one candidate, they have yet to decide on how they will determine who that candidate will be -- either through a political agreement amongst political leaders or an open election.

Paraguay's Public Security Challenges

15. (C) Twelve members of the Free Fatherland Party (PPL) - a far-left, rural-based political movement - were found guilty in 2006 for the 2004-5 kidnapping and murder of Cecilia Cubas, the daughter of former president Raul Cubas. Argentina, Brazil and Bolivia have yet to extradite others implicated who took refuge abroad. Evidence ties the PPL to the Revolutionary Armed Forces of Colombia (FARC). The Cubas kidnapping proved to be one in a series of events over recent years to suggest the emergence of a political movement bent on provoking instability through violence. A culture of distrust, allowing for little inter-institutional cooperation, hampers the ability of Paraguay's law enforcement community and military to tackle rising concerns about public security; Paraguay's National Police are widely disparaged by the general population as incompetent and corrupt, and the police and military are generally rivals, not partners. The Cubas killing and clear evidence of FARC involvement shocked Paraguay's leaders and population. Increased cooperation with Colombia and the U.S. and the realization of the need for better intelligence and other security measures were positive, if ironic, results of the Cubas case. Concern over the PPL has died down since the convictions while internal security concerns have risen. Major robberies and kidnappings of an apparently criminal nature, including the kidnapping of terrorist financier Mohammad Barakat and the Japanese leader of the Unification Church, are on the rise in 2007, particularly in Ciudad del Este.

Reforming the Economy, But Growth Insufficient

16. (U) Paraguay's economy relies heavily on agriculture. It features bloated but weak state institutions and the heavy involvement of state-owned enterprises. There is considerable activity involving the trading of imported legitimate goods, contraband and counterfeit products, most of which are destined for Brazil or Argentina. President Duarte inherited a weak economy in 2003 and promised to attack widespread corruption and reform the economy. He named a non-partisan, technocratic economic cabinet and has supported their efforts. On a macroeconomic level, Paraguay's performance has been strong: economic growth reached 4 percent in 2006 although inflation reached 12.5 percent. While the government succeeded early on in getting

some significant economic reform laws through Congress, progress over the past three years has been slow. The confrontation between Congress and the Executive has all but frozen any reform efforts that require legislation; the Congress has rejected several loans (from the IDB, EU, the World Bank, and Japan) and suspended for one year the application of the previously authorized personal income tax.

For Paraguay to escape from the poverty affecting roughly half of its population, the country needs to increase productivity by attracting capital and raising annual growth rates to at least 5 or 6 percent -- and sustaining them there. Success will require the government to stay the course on macroeconomic stability and undertake deeper structural reforms. But as the political class now gears up for a bruising 2008 fight over government control, there is no sign of the political will.

International Crime and Counter Terrorism

¶7. (U) U.S. Treasury estimates \$100 million leaves Paraguay every month and never returns. The Tri-Border Area (TBA), the region of Paraguay that meets Brazil and Argentina near the city of Ciudad del Este, is a primary USG concern. The area, with its loose borders and lax controls, is a hub for transnational criminal activity including drug trafficking, trafficking in persons, arms trafficking, intellectual piracy, document forgery, and contraband. Brazil has tightened its border controls, but the effort has produced more a diversion of smuggled goods (particularly to other towns on Paraguay's border, Pedro Juan Caballero and Salto del Guaira) than a disruption of the flow. Significant amounts of money continue to flow out of CDE to the Middle East.

¶8. (SBU) Paraguay is widely regarded as the weakest link in combating the wide range of illicit activities that occur in the TBA. Corruption at multiple levels undercuts serious law enforcement efforts. Nevertheless, Paraguay has taken serious steps to address its institutional deficiencies by creating special units, principally in Customs and the Ministry of Industry and Commerce (MIC) to investigate IPR violations and customs fraud. The MIC's Specialized Technical Unit (UTE), in particular, has made a number of significant seizures of counterfeit products. These units receive significant assistance from the USG in the form of INL funds or the MCC Threshold Program.

¶9. (SBU) Paraguay's Anti-Money Laundering Secretariat (SEPRELAD) has also received technical assistance and equipment from the U.S. Paraguay has subscribed to all 12 UN counter-terror conventions but its anti-money laundering law does not allow for prosecution of money laundering as an autonomous crime. Nor does Paraguay yet have counter terrorism legislation. Paraguay seeks to meet its international obligations through provisions in a series of three bills. UNCTC Executive Ruperez approved of the draft legislation text when he visited in July 2006. The first bill establishing money laundering and terrorist financing as crimes and setting out the consequent penalties was delivered to Congress this October; on April 19, the Congress voted to suspend consideration of the bill for another 15 days. The bill on procedural tools for the prosecution of these crimes remains under arduous debate before a Legislative Reform Commission and could face much of the same when submitted to Congress. The law establishing SEPRELAD's regulatory authorities has been drafted but not yet submitted to Congress pending movement on the first bill. Paraguay's SEPRELAD could face suspension from the Egmont Group should this bill not be adopted before June; we have presently suspended relations with SEPRELAD over concerns about the effectiveness and trustworthiness of its director. In December, Treasury designated nine individuals and two entities from the TBA for involvement in terrorist financing.

Publicly, Paraguay subscribes to the Brazilian line that terrorist financing is not a problem. However, on a constructive note, in the absence of an effective money laundering law, Paraguay has prosecuted three alleged Hizballah terrorist financiers for tax evasion.

¶10. (SBU) Paraguay is a significant transit point for the transportation of cocaine by air from Colombia and Bolivia to Brazil. Paraguay grows much of the marajuana consumed in Brazil and The Southern Cone. Paraguay lacks radar coverage over much of the national territory and any air response capability. Much of the northwestern part of the country is barren and uninhabited, and the GOP has difficulties in enforcing the law due to geography and the political (and judicial) power some drug traffickers wield. Paraguay's Anti-Drug Secretariat (SENAD), the single-most effective law enforcement body in Paraguay, coordinates GOP interdiction efforts, with significant assistance from the DEA and support from US Special Forces advisors.

¶11. (SBU) In 2004, Paraguay and Brazil collaborated in a joint operation, with DEA assistance the seizure of over 260 kilograms of cocaine and Brazilian drug kingpin Ivan Carlos Mendes Mesquita, wanted in the U.S. on drug trafficking charges. Paraguay cooperated with the USG extradition request and Mendes Mesquita was taken into U.S. custody in 2005, a dramatic and unprecedented step. Working closely with the U.S., SENAD has effectively targeted Brazilian trafficking groups that are run mostly out of Pedro Juan Caballero (PJC) on Paraguay's northern border with Brazil. Within the past year, SENAD has made a number of significant arms seizures with evidence signaling links to Brazil's PCC and Colombia's FARC. While these weapons were seized in PJC and Asuncion, arms and drug trafficking also occur out of CDE. Presently, SENAD is hard-pressed to meet challenges in that region for lack of resources (its national annual budget is just USD 2 million). SENAD inaugurated a helipad in PJC on April 11, the second phase of State Department funded (USD 500,000) project, creating a SENAD facility in the region and a potential base from which to launch operations -- if it receives the GOP funds it needs for fuel.

Regional Concerns

¶12. (SBU) The political situation in Bolivia is on the radar screen in Paraguay but not in a major way. Some commentators have conveyed concern that instability in Bolivia could lend itself to a higher flow of drugs or other illicit activity from that country. Some Paraguayan military officials have conveyed to Post a concern about lingering irredentist claims within some segments of the Bolivian military to territory in the Chaco -- the vast region in Western Paraguay that borders Bolivia and served as the site of a war with Paraguay in the 1930s -- that could stir controversy and tension should Bolivia suffer an extended period of instability. Reported discoveries of potential commercially significant natural gas resources near the Bolivian border could add fuel to such concerns. Lastly, Brazil and Paraguay rely on Bolivian infrastructure for land traffic extending to the Pacific coast that could be jeopardized in the event of instability in Bolivia. Some Bolivian commentators, including political officials, have signaled concern that the U.S. sought to establish a military base in the Chaco for the purpose of monitoring activities in Bolivia or attempting to control energy resources in the Bolivian and Paraguayan Chaco region.

All things considered, however, Bolivia does not figure large in Paraguay's foreign relations -- or vice versa -- and most Paraguayan decision makers devote fleeting attention to developments in Bolivia.

¶13. (SBU) Despite preoccupation with close-to-home terrorism issues including kidnappings, local violent radicals, the FARC, and fund-raising for Hizbollah; Paraguay is reluctant to take a lead in the war on terrorism beyond its borders. This is due to pressure from Brazil as well as domestic concerns that an aggressive anti-terrorism policy (e.g., vis-a-vis the Middle East) will draw terrorist reprisals. In addition, memories of abuses under the Stroessner dictatorship (1954-1989) still cast a long shadow. President Duarte received JCS Chairman General Myers in 2004, but then made a public show of announcing that Paraguay would not send a contingent to Iraq despite having volunteered to do so to President Bush a year earlier. Given false allegations the U.S. wants to establish a military base in Paraguay, we

recommend tailoring any public remarks about Paraguay's role in the GWOT in a way that will not lend fuel to these false claims. It is perhaps best to focus interlocutors on attacking corruption and the facilitation of international crime as a way to improve Paraguay's international image.

¶14. (U) Paraguay and Bolivia signed a security/defense agreement at the end of March, which included a joint communiqu  on dengue fever. The agreement aims to improve communication and information exchange as a way to address as a way to address mutual suspicions. It also details plans for the 6th High Military Command Meeting in Asuncion to increase military-to-military exchanges and ties. Admiral Stavridis' early April visit here, however, have made little substantive progress - and no media coverage.

U.S. Activities

¶15. (SBU) U.S. activities in Paraguay are focused on strengthening democratic institutions, promoting sound economic policies and good governance, disrupting criminal organizations, and combating terrorist financing. Post maintains bilateral assistance programs dealing with combating narcotics trafficking, money laundering, intellectual property violations, and trafficking in persons.

A Department of Justice Resident Legal Advisor and advisors from Treasury's Office of Technical Assistance have worked quietly behind the scenes over the last three years to assist the Paraguayan Government in developing appropriate money laundering and counter-terror legislation. Diplomatic Security's Anti-Terrorism Assistance program also continues to provide a wide variety of training to local police and prosecutors. In the wake of the Cubas kidnapping, Vice President Castiglioni traveled to the U.S. for meetings with VP Cheney, former SECDEF Rumsfeld, and other key officials to discuss a comprehensive approach to Paraguay's security challenges, including a high-level seminar sponsored by the Center for Hemispheric Defense Studies (CHDS) that was held in 2005. SECDEF Rumsfeld visited Paraguay in 2005. At the end of 2006, CHDS followed-up with comprehensive meetings on transformation and reformation of the military. Paraguay has expressed interest in acquiring technical assistance in development of its National Security Strategy and National Defense Plan. USAID and the Peace Corps also have programs in the country, specifically focused on strengthening democratic and judicial institutions as well as anti-corruption. Paraguay began to implement a USD 35 million Millennium Challenge Account Threshold Program in May 2006; its poor historical record on corruption was the major reason it did not qualify for full participation in the program. The Threshold Program focuses on combating impunity and informality.

¶16. (C) Notwithstanding, President Duarte's decision last October not to extend SOFA protections to U.S. military personnel, U.S. military cooperation with Paraguay has continued, albeit under a lower profile. While MEDRETES have been suspended, teams of Special Forces advisors -- unarmed since the President has not submitted for Senate approval for the entry of "troops" as required by the Constitution -- engage periodically in-country with their Paraguayan counterparts. A team of 13 SF trainees entered Paraguay in March to complete training of the "CT" company - which is making superb progress. This subject is sensitive and we have not yet spoken to it in public. We continue to negotiate the terms of a new SOFA but are not optimistic about prospects for progress before May 2008 elections. Separately, we are pleased to announce that a 505 Assurance Agreement with Paraguay was signed through an exchange of notes with the Foreign Ministry on April 12. This agreement will enable us to proceed with disbursement of USD 1.1 million for GPOI funds. We are also providing Paraguay with some USD 3.5 million in 1208 funds for weapons and other equipment. Post is actively coordinating training of Paraguayan military and civilian efforts with their Colombian counterparts in counter-terrorism and counter-narcotics activities.

Strong Record of Military Cooperation

¶17. (U) Post's Office of Defense Cooperation (ODC) has developed a robust JCET/CNT program, second to only that of Colombia in the region, and implemented the Counter Terrorism Fellowship Program contributing significantly toward establishment of host nation CT capability, including designation and creation of a Paraguayan Tier 1 unit. Funding from the Enhanced International Peacekeeping Cooperation (EIPC) program has facilitated the training of over one thousand observers and peacekeepers and the deployment of approximately one hundred Paraguayans in support of peacekeeping operations in this hemisphere and Africa. Separately, ODC has also launched an outreach program, leveraging the State Partnership Program, designed to encourage the military to build institutional links with legislators in part through visits by Paraguayan Congressmen as well as Flag officers from the Joint Staff and Ministry of Defense with their counterparts in the U.S. The partnership with the Massachusetts National Guard (MANG) is robust; the MANG designation of a full time Traditional CINC Activities coordinator from MANG has greatly promoted an improved relationship.

Personal Security and Crime

¶18. (U) Political Violence-Terrorism: There are no political groups or parties currently active in Paraguay that specifically target U.S. interests. Because of reports indicating the presence of members of, and support for, extremist terrorist groups in the tri-border region (Alto Parana and Itapua Departments), visitors here cannot discount the possibility of terrorist activity, to include random acts of anti-American violence. Small, armed groups have also been reported to be operating in the Concepcion and San Pedro Departments.

¶19. (U) Crime: Paraguay is a high-threat post for crime. Petty street crime in the cities of Asuncion and Ciudad del Este continues to be a problem for residents and visitors alike. Visitors to both cities should be aware of problems with pickpockets or purse snatchers on the street or on public transportation. Until recently, most crime affecting visitors has been non-violent; aggravated robberies, shootings, etc., while not completely unheard of in Asuncion, were nonetheless uncommon. However, incidents of armed robberies of businesses and residences by criminal groups are occurring with greater frequency, and as a result, it is recommended that due caution be exercised when traveling about the city.

The Impact of Your Visit

¶20. (U) You will represent the highest-level Department of State Official to visit Paraguay since 2004 and the highest USG official to visit since SECDEF Rumsfeld and FBI Director Mueller visited in 2006 -- visits that drew significant attention and commentary. You are likely to encounter significant press on conclusion of several of your meetings and, as noted, we have invited the press to a number of your events. Paraguayan journalists are generally friendly. Even if you have no time between meetings, it is better to stop and answer a question or two than to refuse questions. As when you refuse, offended reporters may spur rumors of "secret meetings and agreements." Post will provide you with suggested talking points upon your arrival.

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